

## **WASTE CREDIT GOVERNANCE COMMITTEE (WCGC)**

### **1 MARCH 2023**

## **TECHNICAL UPDATE – ENERGY FROM WASTE (EFW) PLANT REPORTING REQUIREMENTS**

---

### **Recommendation**

- 1. The Chief Financial Officer recommends that the Committee note and comment on:**
  - a) The main categories of reports or information that the Borrower must regularly produce:**
    - Appendix 1 - The Historic Annual Debt Service Cover Ratio (“HADSCR”). The Projected Annual Debt Service Cover Ratio (“PADSCR”) and the Loan Life Cover Ratio before distributions (LLCR)**
    - Appendix 2 - Ratio compliance certificate**
    - Senior Term Loan Facility Agreement (STLFA) Assurance Statement for the Council attached as Appendix.**
  - b) The update on the agreed contract extension with Mercia Waste Management (MWM) and the KPMG findings.**

### **Introduction and Background**

- 1. As background, in 1998 under a partnership agreement, Worcestershire County Council and Herefordshire District Council (the “Councils”) signed the Contract, which was one of the first joint waste PFI contracts within the UK.**
- 2. In May 2014, the Council’s as Lenders, provided a total of £163.50m split across two facilities (Facility A £35.45m and Facility B £128.05m), to the Borrower for the purposes of constructing a new Energy from Waste Project in Hartlebury. Facility A is now fully amortised and repaid with the last payment received in full on the 31 December 2022.**
- 3. The repayment for the loan relating to Facility B has been extended for a further 5 years and the final repayment will be made on the 11 January 2029. This is then to be repaid with a single bullet payment from the Councils.**
- 4. As is standard with Facility Agreements of this nature, the Borrower is required to report periodically to Lenders on their compliance with certain requirements. One particular requirement is the ratios required to be measured under the STLFA at each calculation date (30 June / 31 December).**

5. Ratios are a financial covenant imposed by Lenders (in this case the Council's as Lenders) as a monitoring mechanism to provide early warning of project distress and potential Borrower default on their repayment obligations. The ratios provide a measure of the project's historic and future performance in relation to its ability to service current and upcoming debt liabilities. The required ratios are:-

- **Historic Annual Debt Service Cover Ratio ("ADSCR"):** A historic periodic measure used to assess the projects ability to service its current debt obligation over the preceding 12-month period, based on actual cash flows.
- **Projected ADSCR:** A forecasted periodic measure used to assess the projects ability to service its upcoming debt obligations of the proceeding 12-month period, based on forecast cash flows.
- **Loan Life Cover Ratio ("LLCR"):** A forecasted measure used to assess the projects ability to repay the outstanding loan from future cash flows over the remaining life of the loan, based on longer term forecast cash flows

#### **Extension of contract with MWM**

6. On the 9 December 2021, a report was provided to Cabinet seeking negotiation to enter into a Variation with Mercia to put into effect their proposals for extending the duration of the Waste Management Services Contract for a period of five years until 11 January 2029 which also involved extending the existing loan by a further 5 years.

7. KPMG undertook a review on the ability of MWM to meet the financial ratio's on the basis the 5 year loan is agreed. The final KPMG report was circulated to Committee members on the 11 January 2023.

8. The key area that KPMG focussed on was to review the updated financial model and assess from a lender perspective the robustness of the revised financial ratio's which are a measure of the future financial health of the company and their ability to meet the loan commitments. Section 2 provided a summary of KPMG findings and specified in 2.1 that:

***Overall, we can confirm the updated Financial Model provided by Mercia is consistent with the financing parameters agreed between Mercia and the Councils in November 2021. The financing arrangement as set out in the updated Financial Model and reflected in the STLFA is on balance considered to be reasonable and not adversely affect the risk profile of the Lenders.***

9. Also in 2.1 (3) the report highlighted that the ***ratios are forecast to be higher than the default, lock-up and minimum which results in compliant levels of performance;***

10. Therefore hopefully this provides sufficient comfort to the Committee of the ability of Mercia Waste Services to make the loan repayments over the next 5 years.

11. The Lenders and Borrower have agreed that the first official semi-annual Ratio Testing Date will be 31 December 2022, on which date the Projected ADSCR and LLCR covenants must be met. The Historic ADSCR will not become an STLFA covenant until the 30 June 2023 testing date. This is to avoid "looking back" more than one quarter prior to the Effective Date.

### **Reporting Requirements post completion and loan extension**

12. As set out in its Terms of Reference, the Committee will be advised by external financial, technical and legal advisers on behalf of the Council's Section 151 Officer. This report covers the reporting requirements post completion.

13. The Council commissioned Ashurst LLP to identify the Borrower's Regular Reporting Obligations under the Herefordshire and Worcestershire Waste Facility Agreement for the post construction Energy From Waste (EFW) period, as set out in the Senior Term Loan Facility Agreement

14. The main categories of reports or information that the Borrower has to regularly produce going forward are:

- the Ratio Calculations report.
- the Ratio Compliance Certificate.
- reports in relation to financial and project information; and reports during the operating period.

15. As detailed in paragraph 11 above, the Historic Annual Debt Service Cover Ratio ("ADSCR") is not required until the 30 June 2023. Appendix 1: shows that the Projected ADSCR was 1:72 which is better than the target 1.35 and the Loan Life Cover Ratio ("LLCR") was 5.91 as at the 31 December 2022. Appendix 2 provides the signed Ratio compliance certificate.

### **Assurance Statement**

16. It has been agreed that for Committee, Mercia Waste Management (MWM) will produce a short, high level assurance statement (Appendix 3). The aim being to reassure the Lender (the Council) that there is no material matters which would impair MWM's ability to repay the Loan in accordance with the Financial Model in the coming period. Another purpose of the statement is to cover the deficiency of the Loan Agreement Reporting in respect of the "Non – EFW" part of the MWM business.

**17. Please note that Appendix 1 contains exempt information relating to the financial or business affairs of any particular person (including the authority holding the information) (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

### **Contact Points**

Rob Wilson  
Pensions Investment, Treasury Management & Capital strategy manager  
Tel: 01905 846908  
Email: [RWilson2@worcestershire.gov.uk](mailto:RWilson2@worcestershire.gov.uk)

### **Supporting Information**

Appendix 1 – The Projected Annual Debt Service Cover Ratio ("PADSCR") and the Loan Life Cover Ratio before distributions (LLCR) – **(Exempt Information – Salmon pages)**  
Appendix 2 - Ratio compliance certificate

Appendix 3 - the Senior Term Loan Facility Agreement (STFLA) Assurance Statement  
Mercia

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

KPMG Report on loan extension sent to Committee members on the 11 January 2023